

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 ITC-01

TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 /093 W

----- 112692

P R 121825Z JUL 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 1524

INFO ALL EC CAPITALS 2317

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E.O. 11652: N/A

TAGS: EEC, AGR

SUBJECT: COMMISSION PROPOSAL TO TAX VEGETABLE FATS AND OILS

REF: (A) STATE 170962, (B) EC BRUSSELS 6774

1. SUMMARY: TAKING ADVANTAGE OF CONGRESSMAN CONABLE'S VISIT TO THE COMMISSION, AMBASSADOR HINTON AND CONGRESSMAN CONABLE ATTACKED THE COMMISSION PROPOSAL ON AN OIL TAX, STRESSING ITS TRADE RESTRICTIVE

EFFECTS AND THE STRONG US POLITICAL REACTION. HIJZEN AND LARDINOIS DEFENDED THE PROPOSAL ON THE GROUNDS THAT IT WAS CONSISTENT WITH GATT AND WOULD NOT DAMAGE TRADE. LARDINOIS ADDED SOME DETAILS ABOUT WHAT HE HAS IN MIND. MISSION BELIEVES IT WOULD BE USEFUL TO RECEIVE FROM WASHINGTON FOR CONTINGENCY USE AN ANALYSIS OF THE EFFECTS OF A FATS AND OILS TAX ON US TRADE AND FURTHER ELABORATION OF THE GATT POINTS INVOLVED. END SUMMARY.

2. DURING A JULY 12 CALL BY CONGRESSMAN CONABLE, AMBASSADOR HINTON AND COUNSELOR JOHNSTON ON HIJZEN, COMMISSION DIRECTOR GENERAL FOR EXTERNAL RELATIONS, CONABLE LEAD OFF ON THE FATS AND OILS TAX ISSUE BY COMMENTING THAT MAINTENANCE OF A LIBERAL TRADE POLICY IN
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THE US DEPENDS UPON THE SUPPORT IN THE CONGRESS OF THE AGRICULTURE

BLOC. UNLESS THIS GROUP UNDERSTANDS THAT US AGRICULTURE STANDS TO GAIN FROM US TRADE RELATIONS WE ARE IN TROUBLE. AMBASSADOR HINTON SAID THAT THE COMMISSION HAS NOW PROPOSED A MEASURE WHICH IS AIMED LARGELY AT US AND LDC TRADE SINCE THE COMMUNITY IS PRODUCING ONLY A SMALL PORTION OF ITS OILS. THE PROPOSAL IS UNSOUND AND WILL CAUSE GREAT POLITICAL DAMAGE IN THE US. IT IS AN UNWARRANTED TRADE RESTRICTION CONTRARY TO THE COMMUNITY'S EXPRESSED INTENTIONS. THE POLITICAL RISK OF THIS MEASURE IS THAT IT WILL BLOW THESE ISSUES BEYOND THE POSSIBILITY OF MANAGEMENT. CONABLE ADDED THAT IF WE WISH TO DO ANYTHING IN THE MTN IT DEPENDS UPON THE SITUATION NOT BEING WORSENERED BY SUCH MEASURES AS THIS. HIJZEN RESPONDED THAT HE CONSIDERS THE "NON-DISCRIMINATORY MEASURE DEFENSIBLE UNDER GATT. IT WOULD TAX ALL VEGETABLE FATS AND OILS, AND THE MILK TAX WILL HAVE THE EFFECT OF TAXING THE PRINCIPAL ANIMAL FATS. HIJZEN WAS NONPLUSSED WHEN WE REMINDED HIM THAT THE COMMISSION PROPOSAL FAILS TO TAX OLIVE OIL. HOWEVER, HE DID NOT WAIVER IN HIS DEFENSE OF THE MEASURE. AMBASSADOR SAID BETTER WAY TO HANDLE CONCERN THAT MILK TAX WILL HURT BUTTER RELATIVE TO MARGARINE WOULD BE OFFSETTING BUTTER SUBSIDY.

2. IN THE CALL ON EC COMMISSIONER FOR AGRICULTURE LARDINOIS, CONABLE, ACCOMPANIED AS BEFORE PLUS MONTEL AND FRASER (AGR), OUTLINED THE POLITICAL SITUATION IN THE US. THE SENATE IS DEEPLY SENSITIVE TO AGRICULTURE INTERESTS AND BOTH HOUSE AND SENATE ARE PARTICULARLY AWARE OF PROBLEMS INVOLVING ONE GROUP AREAS IN THE US, SUCH AS THE MID-WEST AND ITS SOY BEANS. CONABLE SAID THAT HE WAS VERY MUCH CONCERNED PERSONALLY ABOUT ANY MEASURES OF THIS SORT HITTING US AGRICULTURE TRADE, ESPECALLY IN THE SOY BEAN AREA WHERE WE HAVE A LONG HISTORY OF UNRESTRICTED ENTRY INTO THE COMMUNITY. THE COMMISSION'S PROPOSAL FOR A TAX ON OILS AND FATS WOULD HAVE THE SAME EFFECT AS A TAX ON SOY BEANS THEMSELVES. FARMERS THINK THAT SUCH A MEASURE IS DIRECTED AT THE US AND WILL MAKE MAXIMUM USE OF THEIR LEVERAGE IN CONGRESS TO AVOID BEING HURT. THESE MEASURES COULD HAVE A VERY HARMFUL EFFECT ON THE MTN. IF THE MTN IS TO BE SUCCESSFUL IT WILL REQUIRE THAT AGRICULTURE BE WELL TREATED BUT IT WILL ALSO REQUIRE THAT THERE BE NO MEASURES SUCH AS THE OIL TAX TO JEOPARDIZE THE NEGOTIATIONS.

3. LARDINOIS DEFENDED HIS PROPOSAL AND OFFERED ONE OR TWO DETAILS. LIMITED OFFICIAL USE

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IN REGARD TO THE DETAILS HE SAID THAT THE PROPOSED LEVEY ON MILK WOULD RAISE MORE MONEY THAN THE TAX ON OILS. THE OILS TAX WOULD BE ESTABLISHED AT A RATE WHICH WOULD BE COMPARABLE TO THE MILK TAX'S EFFECT ON BUTTER. THE PURPOSE OF THE VEGETABLE OIL TAX IS TO BALANCE THE CHANGE IN THE BUTTER MARGARINE PRICE RATIO WHICH WOULD OTHERWISE OCCUR IF THE TAX ON MILK WERE THE ONLY ELEMENT OF THE COMMISSION'S PROPOSAL. THE TAX ON MILK WHEN ONCE PUT INTO EFFECT COULD BE VARIED IF IT DID NOT HAVE THE ANTICIPATED EFFECT

OF RESTRICTING MILK PRODUCTION AND IT WOULD ALSO BE VARIED IF SUBSEQUENTLY THERE WERE A DECREASE IN THE PRICE OF IMPORTED VEGETABLE PROTEINS. IN OTHER WORDS, IF AFTER THE ESTABLISHMENT OF THE TAX MILK PRODUCTION ROSE OR IF THE PRICE OF PROTEINS DROPPED, BOTH OF THESE WOULD BE ELEMENTS LEADING TOWARD A RISE IN THE MILK TAX. THE ONLY ILLUSTRATIVE EXAMPLE THAT THE GAVE WAS TO SAY THAT MILK TAX MIGHT VARY IN A FORK BETWEEN TWO AND FIVE PERCENT. HE DENIED THAT THE OIL TAX WOULD HAVE ANY IMPACT ON TRADE AT THE LOW LEVELS BEING CONSIDERED AND SAID THAT THE EFFECT ON SOY BEANS WOULD BE LOWER THAN ON MOST OIL SEEDS BECAUSE OF THEIR RELATIVELY LOWER OIL CONTENT. THE TAX WAS NECESSARY TO PERSUADE THE DAIRY INDUSTRY TO GO ALONG WITH A TAX ON MILK.

4. LARDINOIS ESTIMATED THAT HE MIGHT HAVE POLITICAL PROBLEMS IN SOME MEMBER STATES. THE NETHERLANDS, UNDER THE INFLUENCE OF UNILEVER, MIGHT TEND TO RESIST ANY TAX ON MARGARINE. THE UK HAS CONTINUED TO FIGHT FOR A CHEAP FOOD POLICY. THESE TWO WOULD BE THE MOST DIFFICULT BUT IN ADDITION THE GERMANS WOULD BE MORE RECEPTIVE THAN MOST TO US PRESSURES. THE COMMUNITY ANTICIPATES LITTLE TROUBLE FROM THE LDCS BECAUSE THE PROPOSALS SUGGEST THAT THE LDCS BE COMPENSATED BY AID.

5. LARDINOIS SAID THAT THE US FARM BLOC MAY FAVOR LIBERAL TRADE ON EXPORTS BUT THE US IS VERY RESTRICTIONIST ON AGRICULTURAL TRADE IMPORTS. THE COMMUNITY COULD NOT CONTINUE TO LIVE IN A SITUATION WHERE THE US SENDS \$5 BILLION WORTH OF AGRICULTURAL EXPORTS BUT PLACES RESTRICTIONS ON THE COMMUNITY'S AGRICULTURAL EXPORTS (HAM, CHEESE).

6. CONABLE CLOSED THE CONVERSATION BY ALLUDING TO STRIDENT'S STATEMENT AND SAYING THAT THE COMMUNITY COULD EXPECT NO OTHER TYPE OF RESPONSE IN VIEW OF THE POLITICAL FORCE OF THE INDUSTRY LIMITED OFFICIAL USE

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EFFECTED, WHICH WOULD FAIL COMPLETELY TO BE UNDERSTANDING ABOUT THE COMMISSION'S PROPOSAL.

7. RECOMMENDATION: THE MISSION BELIEVES THAT OUR PRINCIPAL THRUST IN APPROACHING THE COMMISSION AND THE MEMBER STATES SHOULD REMAIN ON THE POLITICAL GROUNDS AND ON THE FACT THAT THE EC IS CONSIDERING A PROTECTIONIST AND TRADE RESTRICTIVE MEASURE. WE SHOULD AT THE SAME TIME SEEK THE SUPPORT OF INTERESTED GROUPS FROM WITHIN THE COMMUNITY (E.G., PROCESSORS, UK CONSUMER GROUPS, ETC.). IT WOULD BE A MISTAKE TO GET BOGGED DOWN IN GATT ARGUMENTS OR ESTIMATES OF TRADE EFFECTS. HOWEVER, WE BELIEVE THAT IN VIEW OF HIJZEN'S DEFENSE ON GATT GROUNDS (I.E., THAT SIMILAR TAXES WILL EFFECT MILK AND MOST VEGETABLE OILS) AND LARDINOIS' STATEMENT THAT THE TAX WOULD HAVE NO EFFECT ON TRADE, IT WOULD BE USEFUL IF WASHINGTON WOULD SEND US AN ANALYSIS OF THE WAY SUCH A TAX WOULD EFFECT US TRADE TAKING

INTO ACCOUNT THE ECONOMICS OF OIL PRESSING AND THE COMMUNITY'S
DEPENDENCE ON SOY BEANS AS WELL AS OTHER SOURCES OF OILS AND FATS.
WE WOULD ALSO BE INTERESTED IN A CONTINGENCY PAPER ON THE GATT
ASPECT

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN RELATIONS, CUSTOMS DUTIES, DIPLOMATIC DISCUSSIONS, VEGETABLE OILS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ECBRU06850
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760268-0341
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760769/aaaacink.tel
Line Count: 165
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 170962, 76 EC BRUSSELS 6774
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 01 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 APR 2004 by greeneet>; APPROVED <12 AUG 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMMISSION PROPOSAL TO TAX VEGETABLE FATS AND OILS
TAGS: ETRD, EPAP, EAGR, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006